

CANADIAN WESTERN NATURAL GAS COMPANY LIMITED

AR20



annual
report
1971

BOARD OF DIRECTORS

A. C. ANDERSON, Lethbridge, Alberta
Owner, Medical Dental Pharmacy (Lethbridge) Ltd.

D. E. BATCHELOR, Millarville, Alberta
President, Burns Foundation Limited

G. L. CRAWFORD, Q.C., Calgary
Barrister and Solicitor

R. N. DALBY, Edmonton
Senior Vice-President, Canadian Western Natural Gas Company Limited

E. W. KING, Edmonton
President and Chief Executive Officer, Canadian Western Natural Gas Company Limited

K. L. MacFADYEN, Calgary
Senior Vice-President—Finance, Canadian Western Natural Gas Company Limited

F. C. MANNING, Calgary
President, Manning Egleston Lumber Company Limited

J. E. MAYBIN, Philadelphia, Pa.
Chairman, Canadian Western Natural Gas Company Limited

J. E. O'CONNOR, Calgary
Manager, Calgary Associate Clinic

J. M. SEABROOK, Salem, New Jersey
Chairman and President, International Utilities Corporation

D. B. SMITH, Calgary
Senior Vice-President, Canadian Western Natural Gas Company Limited

M. E. STEWART, Honolulu, Hawaii
President and Chief Executive Officer, C. Brewer and Co., Ltd.

D. K. YORATH, Edmonton
Chairman of the Executive Committee, Vice-President, International Utilities Corporation

HONORARY DIRECTORS

P. D. MELLON
Consultant

H. R. MILNER, C.C., Q.C., Edmonton
Honorary Chairman of the Board, Canadian Western Natural Gas Company Limited

OFFICERS

J. E. MAYBIN, Chairman

E. W. KING, President and Chief Executive Officer

K. L. MacFADYEN, Senior Vice-President—Finance

R. N. DALBY, Senior Vice-President

D. B. SMITH, Senior Vice-President

B. W. SNYDER, Vice-President—Engineering and Rate Administration

J. H. PLETCHER, Vice-President—Gas Supply

E. G. RINGROSE, Vice-President—Administration

A. M. ANDERSON, Controller

A. J. L. FISHER, General Manager

A. J. SMITH, Secretary

J. H. MILLER, Treasurer

D. E. PEARCE, Assistant Secretary

CANADIAN WESTERN NATURAL GAS COMPANY LIMITED

Registered Office: 140 Sixth Avenue S.W., Calgary, Alberta, Canada



HIGHLIGHTS IN REVIEW

CANADIAN WESTERN NATURAL GAS COMPANY LIMITED

	<u>1971</u>	<u>1970</u>	<u>1969</u>	<u>1968</u>	<u>1967</u>	<u>1961</u>
Customers at Year End	141,611	134,738	128,843	122,805	117,857	96,669
Natural Gas Sales ---- (thousands of cubic feet)	83,789,025	73,923,647	71,429,931	67,205,075	62,953,637	44,276,166
Revenue -----	\$31,135,352	\$26,454,027	\$25,187,777	\$23,432,830	\$22,001,346	\$15,623,539
Net Income						
From Operations -----	\$3,404,238	\$2,864,638	\$2,920,672	\$2,787,323	\$2,661,954	\$2,308,112
Total, including gain on sale of land and investments -----	\$3,404,238	\$3,117,521	\$3,004,132	\$2,787,323	\$2,667,431	\$2,308,112
Earnings per Ordinary Share						
From Operations -----	\$1.67	\$1.36	\$1.39	\$1.32	\$1.25	\$1.05
Total, including gain on sale of land and investments -----	\$1.67	\$1.50	\$1.44	\$1.32	\$1.25	\$1.05
Dividends paid per Ordinary Share -----	\$.975	\$.95	\$1.10*	\$.95	\$.90	\$.70
Gross Additions to Plant - Annual -----	\$5,407,660	\$5,971,236	\$5,426,479	\$4,444,029	\$5,171,412	\$2,154,889
Gross Plant -----	\$90,423,528	\$85,833,340	\$80,824,666	\$76,121,872	\$72,432,036	\$53,669,553
Miles of Pipeline ----	4,029	3,853	3,439	3,038	2,653	1,935
Maximum Daily Demand ----- (thousands of cubic feet)	446,625	396,291	374,262	385,190	326,527	253,613
Communities Served -	97	92	91	88	88	78
Population Served ---	540,000	521,000	504,000	483,000	464,000	362,000

* includes extra dividend of 15 cents declared November 1969.

TO THE SHAREHOLDERS

CANADIAN WESTERN NATURAL GAS COMPANY LIMITED

Net earnings during 1971 were \$3,404,000 compared to \$3,118,000 in 1970. After deducting dividends on preference shares this represents earnings per ordinary share of \$1.67 compared to \$1.50 in the preceding year. Earnings in 1970 included an extraordinary gain on sale of land and investments of 14¢ per share. No corresponding extraordinary gain was recorded in 1971.

Revenue from natural gas sales was \$31,135,000 compared with \$26,454,000 in 1970. The revenue increase reflects an increase in sales of almost 10 billion cubic feet or 13 per cent. In addition, the revenues reflect the effect of interim rate adjustments effective February 1, 1971 referred to in the annual report of your Company for the year 1970. It was estimated that these interim rates on a full year basis would result in an overall increase on all classes of service of approximately 10 per cent. On June 4, 1971, the Public Utilities Board of Alberta issued its decision confirming the interim rates and allowing the Company to earn an 8½ per cent return on its net mid-year rate base.

Operating expenses, including taxes and depreciation, were \$26,225,000 in 1971, an increase of \$3,784,000 from the previous year. The most significant items of increased expense arose from increased gas supply costs and higher wage levels. The average temperature for the year was only slightly below the long term average notwithstanding a significantly colder than normal December. As a result, there was no significant deviation in the normal space heating load due to temperature variations. Slightly under 6,900 customers were added during the year, of whom approximately 6,300 were in the residential category.

On January 5, 1972 Canadian Utilities, Limited, for many years an affiliate of your Company, acquired from Canadian Western's former parent, International Utilities Corporation, 87.7 per cent of the outstanding ordinary shares of your Company in exchange for 1,560,380, \$1.25 cumulative redeemable convertible second preferred shares of the par value of \$20 each of Canadian Utilities. The effect of this transaction is that Canadian Utilities is now the direct parent of your Company.

On January 7 Canadian Utilities, Limited mailed an offer to the minority shareholders of your Company. The offer is for the exchange of each ordinary share of Canadian Western for one \$1.25 cumulative redeemable convertible second preferred share of \$20 par value of Canadian Utilities. The offer therefore is identical to that which was made to International Utilities Corporation and accepted by that corporation on January 5, 1972. As of March 7, 1972 the offer had been accepted with respect to 171,987 shares representing 78 per cent of the outstanding minority interest in your Company. This offer expires May 10, 1972.

The directors of your Company have recommended acceptance of the offer by Canadian Utilities and believe it to be in the best interests of the Company's shareholders and its consumers. The determination by your board of the fairness of the share exchange was substantiated by the opinion of Nesbitt Thomson Securities Limited and Wood Gundy Limited.

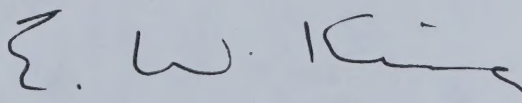
The Company's construction program in 1971 amounted to approximately \$5,000,000. It was financed primarily through the remaining proceeds of the sale of \$10,000,000 sinking fund debentures sold to the public in December, 1970. The capital expenditure program for the year 1972 is estimated to be in excess of \$8,000,000. This program will be financed by internally generated funds and through short term borrowings.

The annual report of your Company for the year 1970 contained reference to the White Paper on Tax Reform and to representations which were being made to the federal government by your Company as well as other Canadian gas and electric utilities. Your directors are pleased to report that these submissions were favorably received by the government with the result that an area of considerable concern to the gas and electric utility industry has been clarified in that preferred and common dividends paid by these utility companies will continue to qualify for a dividend tax credit under the new federal income tax legislation.

On February 1 John E. Maybin who had been Chairman and Chief Executive Officer of the Company since July, 1969, was appointed Group Vice-President - Utilities of International Utilities Corporation. Mr. Maybin continues to hold the position of Chairman of your Company. His duties as Chief Executive Officer have been assumed by the President, E. W. King.

The directors thank all employees of the Company for their help in maintaining its record of good and dependable service.

ON BEHALF OF THE BOARD OF DIRECTORS



E. W. King,
President and Chief Executive Officer

March 10, 1972





Alberta

Red Deer

Airdrie

Banff

Calgary

Brooks

Vulcan

British
Columbia

Blairmore

Fort Macleod

Lethbridge

Cardston

FINANCIAL STATEMENTS

CANADIAN WESTERN NATURAL GAS COMPANY LIMITED

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of Canadian Western Natural Gas Company Limited as of December 31, 1971 and the statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company at December 31, 1971 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
February 3, 1972

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

TRANSFER AGENTS

ORDINARY SHARES

Montreal Trust Company

Calgary, Alberta — Edmonton, Alberta
Toronto, Ontario — Regina, Saskatchewan

PREFERENCE SHARES

Canadian Western Natural Gas Company Limited
Calgary, Alberta

Crown Trust Company
Montreal, Quebec — Toronto, Ontario

Montreal Trust Company
Regina, Saskatchewan

REGISTRARS

ORDINARY SHARES

Montreal Trust Company
Calgary, Alberta — Edmonton, Alberta — Toronto, Ontario

PREFERENCE SHARES

Crown Trust Company
Calgary, Alberta — Montreal, Quebec — Toronto, Ontario

AUDITORS

Peat, Marwick, Mitchell & Co.
309 Eighth Avenue S.W., Calgary, Alberta



BALANCE SHEET

CANADIAN WESTERN NATURAL GAS COMPANY LIMITED

	December 31	
ASSETS	1971	1970
Fixed assets:		
Property, plant, gas wells and equipment subject to amortization and depreciation, at cost -----	\$ 90,423,528	\$ 85,833,340
Less accumulated amortization and depreciation (Note 1) -----	27,759,341	26,006,681
	<u>62,664,187</u>	<u>59,826,659</u>
Undertakings, franchises, gas rights, etc. in respect of which no provision for amortization is being made (including \$2,000,000 par value ordinary shares in Calgary Gas Company, Limited) acquired through issue of ordinary shares -----	8,000,000	8,000,000
Net fixed assets -----	<u>70,664,187</u>	<u>67,826,659</u>
Accounts receivable due beyond one year -----	870,275	1,238,476
Current assets:		
Cash -----	94,019	301,596
Short-term investments, at cost and market -----	—	4,250,000
Accounts receivable -----	3,652,110	3,304,383
Due from parent and affiliated companies -----	69,194	52,385
Income taxes recoverable (Note 4) -----	149,719	—
Materials and supplies, at or below average cost -----	1,132,675	973,723
Prepaid expenses -----	94,149	11,769
Total current assets -----	<u>5,191,866</u>	<u>8,893,856</u>
Unamortized debt discount and expense -----	538,823	582,759
Deferred expense -----	195,651	—
Approved on behalf of the Board:		
E. W. KING, Director		
K. L. MacFADYEN, Director		
	<u>\$ 77,460,802</u>	<u>\$ 78,541,750</u>

	December 31	
LIABILITIES AND SHAREHOLDERS' EQUITY	1971	1970
Shareholders' equity (Note 3):		
Preference shares (Note 2) -----	\$ 9,508,200	\$ 9,508,200
Ordinary shares:		
Authorized — 3,000,000 shares without nominal or par value		
Issued — 1,780,000 shares -----	10,799,000	10,799,000
Retained earnings -----	17,764,129	16,535,719
General reserve -----	1,711,541	1,711,541
Total shareholders' equity -----	39,782,870	38,554,460
Long-term debt (Note 3) -----	27,881,000	28,455,000
Current liabilities:		
Loan payable to bank -----	300,000	—
Accounts payable and accrued liabilities -----	3,254,499	2,706,077
Accrued interest on long-term debt -----	286,775	317,381
Long-term debt — current maturities (Note 3) -----	265,000	2,511,000
Consumer deposits -----	852,325	—
Income taxes (Note 4) -----	—	134,053
Other taxes -----	548,267	422,674
Total current liabilities -----	5,506,866	6,091,185
Deferred income taxes (Note 4) -----	351,757	304,440
Other liabilities:		
Consumer deposits -----	—	1,427,154
Miscellaneous -----	378,915	374,425
Total other liabilities -----	378,915	1,801,579
Contributions for extensions to plant -----	3,559,394	3,335,086
Commitments (Note 5)		
	<u>\$ 77,460,802</u>	<u>\$ 78,541,750</u>

See accompanying notes.



STATEMENT OF EARNINGS

CANADIAN WESTERN NATURAL GAS COMPANY LIMITED

	Year ended December 31	
	1971	1970
Natural gas sales	\$ 31,135,352	\$ 26,454,027
Operating expenses:		
Natural gas purchased	11,315,632	8,848,296
Operating	7,261,422	6,536,420
Maintenance	1,307,370	1,095,443
Taxes — income (Note 4)	2,300,000	2,048,000
Taxes — other than income	2,222,597	1,932,375
Depreciation exclusive of \$176,783 included in operating and other accounts (1970 — \$168,347) (Note 1)	1,818,319	1,980,773
	<u>26,225,340</u>	<u>22,441,307</u>
Net operating income	4,910,012	4,012,720
Other income:		
Gain on purchase of long-term debt	105,980	50,663
Interest and dividends	309,324	157,708
Rent	178,278	211,761
Miscellaneous	142,374	81,291
	<u>735,956</u>	<u>501,423</u>
	5,645,968	4,514,143
Income deductions:		
Interest on long-term debt	2,123,667	1,318,434
Other interest	69,550	298,189
Debt discount and expense amortized	48,513	32,882
	<u>2,241,730</u>	<u>1,649,505</u>
Net earnings from services and other income	3,404,238	2,864,638
Gain on sale of land and investments	—	252,883
Net earnings (Note 7)	<u>\$ 3,404,238</u>	<u>\$ 3,117,521</u>

See accompanying notes.

STATEMENT OF RETAINED EARNINGS

CANADIAN WESTERN NATURAL GAS COMPANY LIMITED

	Year ended December 31	
	1971	1970
Balance at beginning of year as previously reported	\$ 16,535,719	\$ 15,453,671
Adjustment of prior years' income taxes	—	95,855
Balance as restated	16,535,719	15,549,526
Add net earnings	3,404,238	3,117,521
	19,939,957	18,667,047
Deduct dividends:		
4% cumulative preference shares	220,328	220,328
5½% cumulative preference shares	220,000	220,000
Ordinary shares	1,735,500	1,691,000
	2,175,828	2,131,328
Balance at end of year	\$ 17,764,129	\$ 16,535,719
See accompanying notes.		

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	Year ended December 31	
	1971	1970
Funds provided by:		
Operations:		
Net earnings	\$ 3,404,238	\$ 3,117,521
Add depreciation and other charges, less credits, not involving cash	2,097,068	1,923,439
	5,501,306	5,040,960
Proceeds on issue of debentures, less expenses of issue	—	9,706,639
Proceeds from disposal of fixed assets	91,072	428,051
Increase in consumer deposits	—	74,123
Increase in contributions for extensions to plant	224,308	711,082
Decrease in accounts receivable due beyond one year	368,201	—
Total funds provided	6,184,887	15,960,855
Funds applied to:		
Payment of dividends	2,175,828	2,131,328
Additions to fixed assets	4,923,702	5,516,775
Reduction of long-term debt	574,000	2,515,000
Increase in deferred expenses	195,651	—
Increase in accounts receivable due beyond one year	—	71,754
Reduction of consumer deposits	1,427,154	—
Other, net	6,223	43,273
Total funds applied	9,302,558	10,278,130
Increase (decrease) in working capital	\$ (3,117,671)	\$ 5,682,725
See accompanying notes.		



NOTES TO FINANCIAL STATEMENTS · DECEMBER 31, 1971

CANADIAN WESTERN NATURAL GAS COMPANY LIMITED

1. Amortization and depreciation:

Property, plant and equipment is being amortized and depreciated in accordance with Board orders of The Public Utilities Board for the Province of Alberta as follows:

General plant (exclusive of transportation and moveable equipment) on a straight line basis at the effective rate of $2\frac{1}{4}\%$ per annum on the gross cost of the plant at the preceding December 31, less contributions for extensions to plant at that date.

Natural gas and underground storage facilities at the rate of $1\frac{1}{2}\%$ per annum on cost at preceding December 31, plus an amount based upon unit withdrawals.

Other plant at various rates based on the estimated lives of the assets.

2. Preference shares:

Authorized:

600,000 shares of the par value of \$20 each, issuable in series, of which 325,000 shares have been designated as Cumulative Redeemable Preference shares 4% series and 200,000 shares have been designated as Cumulative Redeemable Preference shares $5\frac{1}{2}\%$ series.

Issued and redeemable at the option of the company on 30 days' notice at \$20.60 per share:

275,410 shares 4% series	\$ 5,508,200
200,000 shares $5\frac{1}{2}\%$ series	4,000,000
	<u>\$ 9,508,200</u>

3. Long-term debt:

Long-term debt at December 31, 1971 is summarized as follows:

	Total Amount	Current Maturities
First mortgage sinking fund bonds:		
Series B — $5\frac{3}{4}\%$ due February 1, 1982	\$ 4,447,000	—
Series C — $5\frac{3}{8}\%$ due April 1, 1983	3,009,000	—
Series D — $5\frac{5}{8}\%$ due May 1, 1989	4,250,000	125,000
Series E — 7% due June 15, 1992	6,440,000	140,000
	<u>18,146,000</u>	<u>265,000</u>
Sinking fund debentures:		
$9\frac{3}{4}\%$ due December 1, 1990	10,000,000	—
	<u>28,146,000</u>	<u>265,000</u>
Deduct current maturities	265,000	
Long-term debt less current maturities	<u>\$27,881,000</u>	

The long-term debt outstanding and current maturities thereof are stated after deducting \$188,000 Series B and \$121,000 Series C bonds which have been purchased and are held for future sinking fund payments.

Instalments of long-term debt maturing in each of the calendar years 1973, 1974, 1975 and 1976 amount to \$966,000, \$975,000, \$975,000 and \$975,000, respectively.

The trust deed and indentures securing the first mortgage bonds and the debentures impose certain restrictions on the payment of dividends and management fees and upon the redemption or repayment of the company's preference and ordinary shares. To December 31, 1971, all of the conditions of the trust deed and indentures had been met.

4. Income Taxes:

In fixing rates, except for the matter referred to in the succeeding paragraph, The Public Utilities Board of the Province of Alberta permits the company to recover only taxes payable currently and accordingly, to the extent that capital cost allowances are claimed in excess of the depreciation recorded in the accounts, there has been a related reduction in the amount of income taxes otherwise payable.

The company is permitted, however, to record deferred tax credits in respect to the acquisition of natural gas rights for its utility system, but, at the specific request of the City of Calgary it has agreed with effect from January 1, 1967 to amortize such deferred tax credits by credit to the annual provisions for income taxes over a 10 year period.

The effect of the reductions in the annual provisions for income taxes resulting from the use of the methods referred to in the two preceding paragraphs as compared to the annual provisions on a tax allocation basis is that the provisions have been reduced by \$484,347 in 1971 (\$240,628 in 1970). The cumulative amount of deferred tax credits to December 31, 1971, is \$3,073,870 of which \$351,757 has been recorded in the accounts.

5. Commitments:

The company, together with certain of its affiliated companies, has in effect a pension plan covering substantially all of its employees. At December 31, 1971, the company's share of the aggregate unfunded past service liability, being amortized over a period of approximately fifteen years, amounted to approximately \$1,358,000.

Commitments under contracts pertaining to construction of new plant amounted to approximately \$1,330,000 at December 31, 1971.

6. Remuneration of directors and senior officers:

The aggregate remuneration paid by the company to the directors and senior officers of the company during 1971 was \$251,438.

7. Net earnings per share:

	<u>1971</u>	<u>1970</u>
Net earnings per ordinary share after deducting dividends on preference shares:		
Services and other income -----	\$1.67	\$1.36
Gain on sale of land and investments -----	—	.14
Net earnings -----	<u>\$1.67</u>	<u>\$1.50</u>



